

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Marquette Area Wastewater Treatment Facility</b>	County <b>Marquette</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>11/18/05</b>	Date Accountant Report Submitted to State: <b>12/23/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Company, PLC</b>			
Street Address <b>102 W. Washington, Suite 109</b>		City <b>Marquette</b>	State <b>MI</b>
		ZIP <b>49855</b>	
Accountant Signature <i>Rebecca Hillb CMA</i>			Date <b>12/22/05</b>

**Marquette Area  
Wastewater Treatment Facility  
Marquette, Michigan**

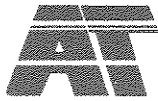
**FINANCIAL STATEMENTS  
June 30, 2005 and 2004**

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**ANDERSON, TACKMAN & COMPANY, P.L.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT**

Marquette Area Wastewater Treatment  
Facility Advisory Board  
Marquette, Michigan

We have audited the statement of net assets of the Marquette Area Wastewater Treatment Facility, as of June 30, 2005 and 2004, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marquette Area Wastewater Treatment Facility at June 30, 2005 and 2004, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 18, 2005 on our consideration of the Facility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Marquette Area Wastewater Treatment  
Facility Advisory Board

The management's discussion and analysis on pages 5 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Anderson, Tackman & Company, PLC*  
Certified Public Accountants

November 18, 2005

## Marquette Area Wastewater Treatment Facility

### MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Marquette Area Wastewater Treatment Facility's financial performance provides an overview of the Facility's financial activities for the year ended June 30, 2005. Please read it in conjunction with the financial statements, which begin on page 9.

#### **FINANCIAL HIGHLIGHTS**

- Net assets for the Facility as a whole were reported at \$5,252,654. Net assets are comprised of 100% business-type activities.
- During the year, the Facility's total expenses were \$1,595,332, while revenues from all sources totaled \$1,312,926 resulting in a decrease in net assets of \$282,406.

#### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 8 and 9) provide information about the activities of the Facility as a whole and present a longer-term view of the Facility finances.

#### **Reporting the Facility as a Whole**

One of the most important questions asked about the Facility's finances is "Is the Facility as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Facility as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Facility's *net assets* and changes in them. You can think of the Facility's net assets - the difference between assets and liabilities - as one way to measure the Facility's financial health, or *financial position*. Over time, *increases or decreases* in the Facility's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Facility's operating base and the condition of the Facility's capital assets, to assess the *overall financial health* of the Facility.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, we report all of the Facility's activities as business-type activities because the Facility charges a fee to residents to help it cover the cost of services it provides.

**MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**  
**The Facility as a Whole (Continued)**

Table I provides a summary of the Facility's net assets as of June 30, 2005

**Table 1**  
**Net Assets**

	2005	2004
Current and other assets	\$425,722	\$1,366,615
Restricted assets	1,264,910	1,220,444
Capital assets, net	4,069,490	4,391,437
Total Assets	<u>5,760,122</u>	<u>6,978,496</u>
Current liabilities	507,468	1,443,436
Noncurrent liabilities	-	-
Total Liabilities	<u>507,468</u>	<u>1,443,436</u>
Net Assets:		
Invested in capital assets	4,069,490	4,391,437
Restricted	1,100,868	1,061,327
Unrestricted	82,296	82,296
Total Net Assets	<u>\$5,252,654</u>	<u>\$5,535,060</u>

Net assets of the Facility's business-type activities stood at \$5,252,654. Unrestricted net assets—the part of net assets that could be used to finance day-to-day activities stood at \$82,296.

The \$82,296 in unrestricted net assets represents the accumulated results of all past years' operations. The results of this year's operations for the Facility as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets (see Table 2), which shows the changes in net assets for fiscal year 2005.

**Table 2**  
**Changes in Net Assets**

	2005	2004
Operating revenues:		
Service revenues	\$1,153,201	\$1,186,510
Other operating revenues	27,424	19,477
Total Operating Revenues	<u>1,180,625</u>	<u>1,205,987</u>
Operating expenses:		
Operations	1,187,894	1,212,370
Depreciation	407,438	371,694
Total Operating Expenses	<u>1,595,332</u>	<u>1,584,064</u>
Income (loss) from Operations	<u>(414,707)</u>	<u>(378,077)</u>
Nonoperating Revenues (Expenses):		
Interest income	21,811	11,028
Transfers other local units	110,490	72,985
Total Nonoperating Revenues (Expenses)	<u>132,301</u>	<u>84,013</u>
Increase (decrease) in net assets	<u>(282,406)</u>	<u>(294,064)</u>
Net assets, beginning	5,535,060	5,829,124
Net Assets, Ending	<u>\$5,252,654</u>	<u>\$5,535,060</u>

**MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**  
**The Facility as a Whole (Continued)**

The Facility's total revenues were \$1,312,926. The total cost of all programs and services was \$1,595,331, leaving a decrease in net assets of (\$282,406) as a result of fiscal year 2005 operations.

Due to changes in the GASB 34 requirements we are no longer adding back the depreciation on the buildings which was paid for by grants from the State and Federal government. Therefore, the City and Township will continue to show a decrease in their net assets until such time as the buildings are fully depreciated.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal 2005, the Facility had \$4,069,490 invested in a variety of capital assets including land, buildings, and other equipment. (See table 4 below)

**Table 4**  
**Capital Assets at Year-End**

	2005	2004
Land	\$ 192,772	\$ 192,772
Buildings	12,877,273	12,867,773
Equipment and furnishings	202,372	126,382
Vehicles	65,949	65,949
	13,338,366	13,252,876
Accumulated depreciation	(9,268,876)	(8,861,439)
Totals	<u>\$ 4,069,490</u>	<u>\$ 4,391,437</u>

**Debt**

The Facility has no outstanding debt at year-end.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

In preparing the budget for the year ending June 30, 2006 there appears to be no anticipated changes in operations of funding concerns.

**CONTACTING THE FACILITY FINANCIAL MANAGEMENT**

This financial report is designated to provide our taxpayers, investors and creditors with a general overview of the Facility's finances and to show the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Facility Administrator at Marquette Area Wastewater Treatment Facility, 300 W. Baraga Avenue, Marquette, Michigan 49855.



**Marquette Area Wastewater Treatment Facility**  
**COMPARATIVE STATEMENT OF NET ASSETS**  
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 339,383	\$ 1,173,198
Accounts Receivable:		
Due from Local Units:		
City of Marquette - Water and Sewer Fund	64,555	180,825
Marquette Township	10,090	-
Chocolay Township	11,172	8,815
Other	522	1,714
Prepaid expenses	-	2,063
<b>TOTAL CURRENT ASSETS</b>	<u>425,722</u>	<u>1,366,615</u>
<b>RESTRICTED ASSETS:</b>		
Vacation and sick leave reserve	164,042	159,118
Replacement Fund:		
Replacement reserve	980,282	942,691
Escrow reserve	120,586	118,635
<b>TOTAL RESTRICTED ASSETS</b>	<u>1,264,910</u>	<u>1,220,444</u>
<b>CAPITAL ASSETS:</b>		
Plant and equipment in service	13,338,366	13,252,876
Less accumulated depreciation	<u>(9,268,876)</u>	<u>(8,861,439)</u>
<b>TOTAL CAPITAL ASSETS</b>	<u>4,069,490</u>	<u>4,391,437</u>
<b>TOTAL ASSETS</b>	<u>5,760,122</u>	<u>6,978,496</u>
<b>LIABILITIES:</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable local units:		
City of Marquette - General Fund	273,079	1,234,097
City of Marquette - Motor/Vehicle Equipment Fund	1,133	2,229
Marquette Township	-	856
Accounts payable	69,214	47,137
Accrued sick and vacation payable	164,042	159,117
<b>TOTAL CURRENT LIABILITIES</b>	<u>507,468</u>	<u>1,443,436</u>
<b>TOTAL LIABILITIES</b>	<u>507,468</u>	<u>1,443,436</u>
<b>NET ASSETS:</b>		
Invested in Capital Assets	4,069,490	4,391,437
Unrestricted	82,296	82,296
Restricted:		
Replacement reserve	980,282	942,692
Escrow reserve	120,586	118,635
<b>TOTAL NET ASSETS \$</b>	<u><u>5,252,654</u></u>	<u><u>\$ 5,535,060</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**Marquette Area Wastewater Treatment Facility**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Services for City of Marquette	\$ 976,030	\$ 951,423
Services for Marquette Township	89,107	77,427
Services for Chocolay Township	47,306	46,929
Services to others	40,758	110,731
Equipment rental and miscellaneous	27,424	19,477
<b>TOTAL OPERATING REVENUES</b>	<u>1,180,625</u>	<u>1,205,987</u>
Operating Expenses:		
Operation labor	280,555	295,713
Operation supplies and expenses	31,076	59,927
Chemicals	82,753	76,511
Purchased power and utilities	112,914	110,773
Education	5,196	2,251
Professional services	133,423	133,692
Administrative:		
Salaries and wages	91,343	87,130
Salaries and wages - other	11,894	21,021
Fringe benefits	189,084	181,250
Office supplies	99	595
Professional and contractual	95,546	88,133
Communications	1,885	1,538
Insurance and bonds	31,767	30,808
Rental	1,888	1,772
Miscellaneous	2,486	14
Depreciation	407,438	371,694
Payment in lieu of taxes	115,985	121,242
<b>TOTAL OPERATING EXPENSES</b>	<u>1,595,332</u>	<u>1,584,064</u>
<b>OPERATING LOSS</b>	(414,707)	(378,077)
Other Income and expense:		
Interest income	21,811	11,028
<b>LOSS BEFORE OPERATING TRANSFERS</b>	(392,896)	(367,049)
Transfers from local units	110,490	72,985
<b>CHANGE IN NET ASSETS</b>	(282,406)	(294,064)
<b>NET ASSETS, BEGINNING OF THE YEAR</b>	<u>5,535,060</u>	<u>5,829,124</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 5,252,654</u>	<u>\$ 5,535,060</u>

The accompanying notes to financial statements are an integral part of this statement.

**Marquette Area Wastewater Treatment Facility**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash Flows from Operations:		
Collections from customers	\$ 1,285,640	\$ 1,027,405
Payments to employees and service providers	<u>(2,121,800)</u>	<u>(162,883)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>(836,160)</u>	<u>864,522</u>
Cash Flows from Capital & Related Financing Activities:		
Purchase of equipment	(85,490)	(47,985)
Transfers from local units	<u>110,490</u>	<u>72,985</u>
<b>NET CASH PROVIDED BY CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>	<u>25,000</u>	<u>25,000</u>
Cash Flows from Investing Activities:		
(Increase) in restricted assets	(44,466)	(50,666)
Interest Income	<u>21,811</u>	<u>11,028</u>
<b>NET CASH (USED) IN INVESTING ACTIVITIES</b>	<u>(22,655)</u>	<u>(39,638)</u>
<b>NET INCREASE IN CASH</b>	(833,815)	849,884
Cash, beginning of year	<u>1,173,198</u>	<u>323,314</u>
<b>CASH, END OF YEAR</b>	<u>\$ 339,383</u>	<u>\$ 1,173,198</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net operating loss	\$ (414,706)	\$ (378,077)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	407,438	371,694
(Increase) decrease in accounts receivable	105,015	(178,582)
(Increase) decrease in prepaid expense	2,063	(299)
Increase (decrease) in payables and accruals	<u>(935,970)</u>	<u>1,049,786</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ (836,160)</u>	<u>\$ 864,522</u>

The accompanying notes to financial statements are an integral part of this statement.

## **MARQUETTE AREA WASTEWATER TREATMENT FACILITY**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2005 and 2004

#### **NOTE A – DESCRIPTION OF THE REPORTING ENTITY:**

On April 19, 1977 and May 31, 1983, the City of Marquette, the Charter Township of Marquette and the Charter Township of Chocolay entered into contracts to construct and operate a secondary wastewater treatment facility. Under those agreements, the City of Marquette would own 79.8%, the Charter Township of Marquette would own 5.5%, and the Charter Township of Chocolay would own 14.7%. The facility was constructed by the County of Marquette and was financed through a grant from the Environmental Protection Agency for 75% of the costs, a grant from the Department of Natural Resources for 5% of the costs, and \$2.5 million general obligation bonds issued by the County of Marquette to the City of Marquette and the two townships. The costs of the project not related to the treatment plant, and the proportionate share of Federal and State grants in aid of construction and related bonds payable, are not recognized in these financial statements, but will be recorded by the local unit to which they pertain. These costs amount to approximately \$2,138,000.

On July 1, 1993, there was an amendment to the Marquette County Wastewater Disposal System contract to change the ownership of the three partners involved. The Charter Township of Marquette paid to the City of Marquette and the Charter Township of Chocolay each the sum of \$54,743, representing an allocation of an additional 4.5% of the capacity of the Marquette Area Wastewater Treatment Facility to Marquette Township. The new ownership percentages for the City of Marquette, the Charter Township of Chocolay and the Charter Township of Marquette are 77.55%, 12.45% and 10.00%, respectively.

#### **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Marquette Area Wastewater Treatment Facility conform to generally accepted accounting principles as applicable to governments in the United States of America. The following is a summary of the more significant policies:

**(1) Fund Accounting** - Marquette Area Wastewater Treatment Facility is a distinct entity and, accordingly, consists of a separate set of self-balancing accounts comprised of the Facility's assets, liabilities, net assets, revenues and expense accounts. The Marquette Area Wastewater Treatment Facility is defined under generally accepted terminology as a proprietary enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises with the intent of the governing body being that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

## **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(2) Basis of Accounting** - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. All proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned and expenses are recognized when incurred.

**(3) Mission Statement and Nonoperating Revenues and Expenses** - The Facility's primary mission is to provide wastewater treatment services through its facility. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in revenues or expenses unrelated to the Facility's primary mission are considered to be nonoperating. Nonoperating revenues and expenses include property taxes, county appropriations, maintenance of effort, private contributions, rent, proportionate share reimbursement, and other revenue.

### Cash and Equivalents

For the purposes of the statement of cash flows, the Facility considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

### Investments

Investments are stated at fair market value.

### Accounts Receivable

Accounts receivable consists primarily of amounts due from other governmental units that pay their respective bills on a monthly basis. Therefore, no allowance for doubtful accounts has been established.

### Inventory

Inventories of operating supplies are stated at the lower of cost or market, determined by the first-in, first-out method of valuation.

**(1) Land, Buildings, and Equipment** - Land, buildings, and equipment (capital assets) relating to the operations of the Facility are recorded at cost and accounted for in the Marquette Area Wastewater Treatment Facility Fund. Depreciation on such capital assets is charged as an expense against the operations of the Facility using straight-line depreciation. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives ranging from 10 to 40 years.

**(2) Board-Designated Assets** - Certain investments of the Unrestricted Fund have been internally designated by the Board for the funding of plant replacement, expansion and other specified projects.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(3) Use of Estimates** - The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE C – RECONCILIATION OF RECEIVABLE (PAYABLE) ACCOUNTS:**

	City of <u>Marquette</u>	Chocolay <u>Township</u>	Marquette <u>Township</u>	<u>Total</u>
<b>BALANCE, JUNE 30, 2003</b>	<u>\$(76,430)</u>	<u>\$(498)</u>	<u>\$(3,562)</u>	<u>\$(80,490)</u>
<b>CHARGES:</b>				
Demand Related Charges	155,902	25,029	20,104	201,035
Repayment Replace Reserves	99,130	15,914	12,783	127,827
Flow related charges	954,510	30,138	69,128	1,053,776
General and Protective Fees	-	3,074	2,469	5,543
<b>EQUITY CONTRIBUTIONS:</b>				
Replacement Reserve	22,645	715	1,640	25,000
Earned Interest Reinvested	<u>4,208</u>	<u>133</u>	<u>305</u>	<u>4,646</u>
<b>TOTAL CHARGES</b>	<u>1,236,395</u>	<u>75,003</u>	<u>106,429</u>	<u>1,417,827</u>
<b>PREPAYMENTS AND OTHER CREDITS:</b>				
Wastewater services	759,130	45,124	81,821	886,075
<b>CREDIT FOR OTHER REVENUES:</b>				
Demand related	11,572	1,858	1,492	14,922
Flow related	110,207	3,480	7,981	121,668
Earned interest reinvested	4,208	133	305	4,646
Payment-in-lieu rebate	<u>94,023</u>	<u>15,095</u>	<u>12,124</u>	<u>121,242</u>
<b>TOTAL PAYMENTS AND OTHER CREDITS</b>	<u>979,140</u>	<u>65,690</u>	<u>103,723</u>	<u>1,148,553</u>
<b>NET CHANGE FOR THE YEAR</b>	<u>257,255</u>	<u>9,313</u>	<u>2,706</u>	<u>269,274</u>
<b>BALANCE, JUNE 30, 2004</b>	<u>180,825</u>	<u>8,815</u>	<u>(856)</u>	<u>188,784</u>
<b>CHARGES:</b>				
Demand Related Charges	181,655	29,163	23,424	234,242
Flow related charges	931,697	30,502	71,756	1,033,955
General and Protective Fees	-	2,877	2,311	5,188
<b>EQUITY CONTRIBUTIONS:</b>				
Replacement Reserve	22,527	738	1,735	25,000
Earned Interest Reinvested	<u>13,103</u>	<u>429</u>	<u>1,009</u>	<u>14,541</u>
<b>TOTAL CHARGES</b>	<u>1,148,982</u>	<u>63,709</u>	<u>100,235</u>	<u>1,312,926</u>
<b>PREPAYMENTS AND OTHER CREDITS:</b>				
Wastewater services	1,097,341	41,891	70,683	1,209,915
<b>CREDIT FOR OTHER REVENUES:</b>				
Demand related	12,795	2,054	1,650	16,499
Flow related	45,548	1,491	3,508	50,547
Earned interest reinvested	13,103	429	1,009	14,541
Adjustment for retired assets	6,519	1,047	840	8,406

**NOTE C – RECONCILIATION OF RECEIVABLE (PAYABLE) ACCOUNTS (Continued):**

	City of <u>Marquette</u>	Chocolay <u>Township</u>	Marquette <u>Township</u>	<u>Total</u>
Payment-in-lieu rebate	<u>\$89,946</u>	<u>\$14,440</u>	<u>\$11,599</u>	<u>\$115,985</u>
<b>TOTAL PAYMENTS AND OTHER CREDITS</b>	<u>1,265,252</u>	<u>61,352</u>	<u>89,289</u>	<u>1,415,893</u>
<b>NET CHANGE FOR THE YEAR</b>	<u>(116,270)</u>	<u>2,357</u>	<u>10,946</u>	<u>(102,967)</u>
<b>BALANCE, JUNE 30, 2005</b>	<u>\$ 64,555</u>	<u>\$11,172</u>	<u>\$10,090</u>	<u>\$ 85,817</u>

**NOTE D – SEWAGE FLOW INFORMATION USED IN ALLOCATING VARIABLE COSTS:**

	2005		2004	
	Sewage Flow <u>(100 C.F.)</u>	<u>Percent</u>	Sewage Flow <u>(100 C.F.)</u>	<u>Percent</u>
City of Marquette	1,446,181	90.11%	1,497,651	90.58%
Marquette Township	111,379	6.94%	108,512	6.56%
Chocolay Township	<u>47,354</u>	<u>2.95%</u>	<u>47,266</u>	<u>2.86%</u>
<b>TOTALS</b>	<u>1,604,914</u>	<u>100.00%</u>	<u>1,653,429</u>	<u>100.00%</u>

**NOTE E – DEFINED BENEFIT PENSION PLAN:*****Plan Description***

Through the City of Marquette, the Marquette Area Wastewater Treatment Facility contributes to the Municipal Employees Retirement System of Michigan (System), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. The System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917-9755.

The qualified employees of the Fire Department and the Police Department of the City are included in a separate self-administered plan. The employees of the Marquette Board of Light and Power are included in a separate plan. All other full-time employees of the City and the Marquette Area Wastewater Treatment Facility are eligible to participate in the System. Benefits vest after six years for senior management and after ten years for all others. City employees who retire at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit, payable monthly for life, annual benefits are determined by negotiated contractual benefits within statute guidelines. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

Active employees with ten or more years of service, who become disabled receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly 10 years of credited service, if the actually acquired credited service is less than 10 years.

## NOTE E – DEFINED BENEFIT PENSION PLAN (Continued):

If an employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect an Option II (100% joint and survivor) election. An employee's surviving spouse will receive a retirement allowance equal to 85% of the deceased member's or deceased vested former member's accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

### ***Funding Policy***

City employees are required to contribute five percent of their annual compensation to the System. The City pays the contribution for senior management. The City is required to contribute the remaining amounts necessary to fund the System, using the actuarial basis specified by statute.

### ***Annual Pension Cost***

Funding information is not available for the Marquette Area Wastewater Treatment Facility as a separate unit. Therefore, the information given is the total of the City of Marquette and the Marquette Area Wastewater Treatment Facility. For the year ended June 30, 2005, the City's annual pension cost of \$545,201 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% a year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis over a period of 30 years.

### ***Trend Information***

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Ten year trend information may be found as follows:

**City of Marquette, Michigan**  
**MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN**  
**DEFINED BENEFIT PENSION PLAN**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date <u>December 31</u>	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
1995	\$11,393,263	\$11,735,154	\$ 341,891	97%	\$4,590,387	7%
1996	12,436,500	13,648,879	1,212,379	91	4,717,183	26
1997	13,630,932	15,461,563	1,830,631	88	4,800,223	38
1998	15,257,550	16,216,678	959,128	94	5,031,270	19
1999	16,969,765	17,430,314	430,549	97	4,909,541	9



**NOTE E – DEFINED BENEFIT PENSION PLAN (Continued):**

Actuarial Valuation Date <u>December 31</u>	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
2000	\$18,722,203	\$20,136,439	\$1,414,236	93%	\$4,803,572	29%
2001	20,056,537	23,113,321	3,056,784	87	5,039,800	61
2002	20,799,934	24,588,188	3,788,254	85	5,227,706	72
2003	22,629,322	25,997,838	3,368,516	87	5,393,986	65
2004	24,187,555	28,468,133	4,280,578	85	5,426,755	81

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Fiscal Year Ending June 30	Valuation Date <u>December 31</u>	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1996	1993	\$ 40,840	100.0%	0
1997	1994	103,124	100.0%	0
1998	1995	153,696	100.0%	0
1999	1996	295,912	100.0%	0
2000	1997	424,066	100.0%	0
2001	1998	381,485	100.0%	0
2002	1999	399,053	100.0%	0
2003	2000	456,453	100.0%	0
2004	2001	521,245	100.0%	0
2005	2002	545,201	100.0%	0

**NOTES TO THE REQUIRED SCHEDULES**

The required contribution was determined using the entry age normal actuarial cost method. The actuarial assumptions included **(a)** a rate of return on the investment of present and future assets of 8.0% per year, compounded annually, **(b)** projected salary increases of 4.5% per year, compounded annually, attributable to inflation, and **(c)** additional projected salary increases ranging from 0.00% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis over a period of 30 years.

## NOTE F – DEPOSITS AND INVESTMENTS:

The following is a reconciliation of cash and investments for both the unrestricted and restricted assets:

	<u>2005</u>	<u>2004</u>
Current Assets:		
Cash and equivalents	\$339,383	\$1,173,198
Restricted Assets:		
Vacation & Sick Leave Reserve	164,042	159,118
Replacement Reserve	980,282	942,691
Long-term Receivable from local units	-	-
Escrow reserve	<u>120,586</u>	<u>118,635</u>
	<u>\$1,604,293</u>	<u>\$2,393,642</u>

### *Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the Facility's deposits may not be returned to it. State law does not require and the Facility does not have a deposit policy for custodial credit risk. The carrying amounts of the Facility's deposits with financial institutions was \$1,604,293 and the bank balance was \$1,603,134. Of the bank balance, \$200,000 or approximately 12% was covered by federal depository insurance according to FDIC regulations.

### Investments

As of June 30, 2005, the Facility had no investments.

### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Facility's investments. The Facility does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

### *Credit Risk*

Michigan statutes (Act 196, PA 1997) authorize the Facility to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The Facility has no investment policy that would further limit its investment choices. The Facility's investments are in accordance with statutory authority.

**NOTE G – PLANT AND EQUIPMENT:**

The plant and equipment of the Facility are as follows:

	Balance at June 30, 2004	Additions	Disposals	Balance at June 30, 2005
Land improvements	\$192,772	-	-	\$192,772
Buildings and improvements	12,867,773	9,500	-	12,877,273
Equipment	126,382	75,990	-	135,882
Vehicles	65,949	-	-	65,949
Less accumulated depreciation	(8,861,439)	(407,437)	-	(9,268,876)
	<u>\$4,391,437</u>	<u>\$ (321,947)</u>	<u>-</u>	<u>\$4,069,490</u>

**NOTE H – RECONCILIATION OF FUND EQUITY:**

	City of Marquette Water & Sewer Fund	Township of Marquette	Township of Chocolay	State and Federal	Replacement Reserve	Escrow Reserve	Total
<b>Balance, June 30, 2003</b>	\$1,977,140	\$255,934	\$316,375	\$2,247,994	\$913,546	\$118,135	\$5,829,124
<b>Contributions by Local Units:</b>							
Capital Outlay	37,212	5,974	4,799	-	-	-	47,984
Annual contribution	-	-	-	-	25,000	-	25,000
Earned interest	-	-	-	-	4,146	500	4,646
Depreciation	<u>(66,171)</u>	<u>(10,623)</u>	<u>(8,533)</u>	<u>(286,367)</u>	<u>-</u>	<u>-</u>	<u>(371,694)</u>
Net Gain (Loss)	<u>(28,960)</u>	<u>(4,649)</u>	<u>(3,734)</u>	<u>(286,367)</u>	<u>29,646</u>	<u>500</u>	<u>(294,064)</u>
<b>Balance, June 30, 2004</b>	<u>1,948,180</u>	<u>251,285</u>	<u>312,641</u>	<u>1,961,627</u>	<u>942,692</u>	<u>118,635</u>	<u>5,535,060</u>
<b>Contributions by Local Units:</b>							
Capital Outlay	66,297	10,644	8,549	-	-	-	85,490
Annual contribution	-	-	-	-	25,000	-	25,000
Earned interest	-	-	-	-	12,590	1,951	14,541
Depreciation	<u>(93,890)</u>	<u>(15,073)</u>	<u>(12,107)</u>	<u>(286,367)</u>	<u>-</u>	<u>-</u>	<u>(407,437)</u>
Net Gain (Loss)	<u>(27,593)</u>	<u>(4,429)</u>	<u>(3,558)</u>	<u>(286,367)</u>	<u>37,590</u>	<u>1,951</u>	<u>(282,406)</u>
<b>Balance, June 30, 2005</b>	<u>\$1,920,587</u>	<u>\$246,856</u>	<u>\$309,083</u>	<u>\$1,675,260</u>	<u>\$980,282</u>	<u>\$120,586</u>	<u>\$5,252,654</u>

**NOTE I – OTHER POST EMPLOYMENT BENEFITS:**

Substantially all employees of the Wastewater Treatment Facility are covered under employment contracts with the City of Marquette, which acts as the employer and the employee based on collective bargaining agreements. The Facility pays health care costs on the "pay-as-you-go" basis, whereby the expense is recorded based on premiums paid. No accrual is recorded for future liabilities that may arise for the benefit of terminated or retired employees. The cost of determining the Facility's share of this potential future liability cannot be readily determined.

## **COMPLIANCE SUPPLEMENT**



# ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

## PARTNERS

JOHN W. BLEMBERG, CPA

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MICHIGAN  
ESCANABA  
IRON MOUNTAIN  
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MARQUETTE  
WISCONSIN  
GREEN BAY  
MILWAUKEE

### REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Marquette Area Wastewater Treatment Facility  
Advisory Board  
Marquette, Michigan

We have audited the financial statements of the Marquette Area Wastewater Treatment Facility as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated November 18, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marquette Area Wastewater Treatment Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marquette Area Wastewater Treatment Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Facility, federal and state awarding agencies and is not intended to be used and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company, PLC*  
Certified Public Accountants

November 18, 2005